

Essential Utilities

Moving Past the Tax: Ever Clearer 5-year Growth View

Reiterate Rating: BUY | PO: 49.00 USD | Price: 43.25 USD

Contemplating the Latest Developments

WTRG reported full year adjusted EPS of \$1.58, a penny above our estimate and at the top end of management's guidance. After the earlier roll forward in January, there were limited financial updates with affirmation of 2021 EPS guidance of \$1.64-\$1.69 and their LT 5-7% EPS CAGR through 2023 – and while their water biz has a footprint in TX, commentary suggested no material financial impact from the recent cold weather events. After previously announcing plans to file a rate case at Aqua PA this year keeping with their three year rate case cadence for their water biz, a verbal settlement has been reached around the catch up component of Repairs tax accounting for the gas biz with plans to give all of the tax benefits back to customers over a five year period. While we view the decision to settle the catch up with the full benefit to the rate payers as an incremental drag on our estimates in '23, we expect rate relief in '24 to reaccelerate earnings for the gas segment and stress their 5-7% CAGR as intact (w/further upside support from the midpoint still given the robust muni pipeline). Meanwhile, after the ALJ recommended the PUC deny the DELCORA transaction, the commission is expected to make a decision next month: Given that there are only four commissioners right now in the state, we could very well see a stalemate or see the commission send it back to the ALJ to reconsider add'l evidence as the company works through their concerns. While we see some challenges on the margin, we stress the equity doesn't need to be pulled until August if there is a slight delay of the transaction and the robust muni opp's abound.

Valuation: PO to \$49; tax noise is over; reiterate Buy

We tweak our model to reflect lower ROEs at Peoples Gas in '23 given commentary around the verbal settlement and the need to file a formal rate case for rate relief - but see '24 as intact when we would expect new rates to go into effect. We update our valuation to ascribe the current utility peer multiples of 25.4x and 14.9x for water & gas, respectively (vs. 27.4x and 14.2x previously). We reduce our premium for Peoples Gas from 3x to 1x given the need for a rate case in 2023 while our water premiums remain unchanged and continue to reflect confidence in ability to consistently deliver, strong muni acquisition prospects, and an underappreciated ESG angle. Our PO ultimately shifts to \$49 (from \$54 previously). Reiterate Buy given deep discount and muni upside.

Estimates (Dec) (US\$)	2019A	2020A	2021E	2022E	2023E
EPS	1.47	1.58	1.67	1.80	1.87
GAAP EPS	1.47	1.58	1.67	1.80	1.87
EPS Change (YoY)	4.3%	7.5%	5.7%	7.8%	3.9%
Consensus EPS (Bloomberg)			1.54	1.67	1.79
DPS	0.92	0.99	1.06	1.13	1.21
Valuation (Dec)					
P/E	29.4x	27.4x	25.9x	24.0x	23.1x
GAAP P/E	29.4x	27.4x	25.9x	24.0x	23.1x
Dividend Yield	2.1%	2.3%	2.4%	2.6%	2.8%
EV / EBITDA*	35.4x	21.5x	17.8x	16.6x	15.3x
Free Cash Flow Yield*	-2.0%	-4.7%	-3.6%	-2.8%	-1.6%

* For full definitions of *IQmethod*SM measures, see page 8.

26 February 2021

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	54.00	49.00

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Stock Data

Price	43.25 USD
Price Objective	49.00 USD
Date Established	25-Feb-2021
Investment Opinion	B-1-7
52-Week Range	30.40 USD - 51.22 USD
Mrkt Val (mn) / Shares Out (mn)	10,608 USD / 245.3
Average Daily Value (mn)	48.23 USD
BofA Ticker / Exchange	WTRG / NYS
Bloomberg / Reuters	WTRG US / WTRG.N
ROE (2021E)	8.6%
Net Dbt to Eqty (Dec-2020A)	100.4%

ESG: Environmental Social Governance

DELCORA: Delaware County Regional Water Authority

PUC: Public Utilities Commission

ALJ: Administrative Law Judge

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Refer to important disclosures on page 9 to 12. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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Timestamp: 26 February 2021 08:36AM EST

iQprofileSM Essential Utilities

iQmethodSM – Bus Performance*

(US\$ Millions)	2019A	2020A	2021E	2022E	2023E
Return on Capital Employed	3.5%	3.9%	5.1%	5.1%	5.2%
Return on Equity	8.9%	9.3%	8.6%	8.8%	8.9%
Operating Margin	38.4%	-15.6%	66.8%	66.8%	68.9%
Free Cash Flow	(212)	(498)	(379)	(300)	(169)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2019A	2020A	2021E	2022E	2023E
Cash Realization Ratio	1.3x	1.4x	1.7x	1.7x	1.9x
Asset Replacement Ratio	3.5x	4.2x	2.9x	2.7x	2.5x
Tax Rate	NM	NM	10.0%	10.0%	10.0%
Net Debt-to-Equity Ratio	31.1%	100.4%	97.9%	105.7%	111.1%
Interest Cover	3.1x	2.4x	3.3x	3.5x	3.2x

Income Statement Data (Dec)

(US\$ Millions)	2019A	2020A	2021E	2022E	2023E
Sales	886	886	1,006	1,077	1,126
% Change	6.2%	0%	13.4%	7.1%	4.5%
Gross Profit	890	890	1,661	1,785	1,865
% Change	6.2%	0%	86.7%	7.5%	4.5%
EBITDA	504	831	1,000	1,077	1,164
% Change	-74.1%	64.9%	20.4%	7.6%	8.2%
Net Interest & Other Income	(100)	(183)	(205)	(207)	(242)
Net Income (Adjusted)	263	402	430	470	489
% Change	36.9%	53.1%	7.0%	9.2%	4.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2019A	2020A	2021E	2022E	2023E
Net Income from Cont Operations (GAAP)	225	403	431	470	489
Depreciation & Amortization	156	257	376	412	446
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	(10)	(75)	(75)	(75)	0
Other Adjustments, Net	(32)	(33)	(11)	(6)	(5)
Capital Expenditure	(550)	(1,050)	(1,100)	(1,100)	(1,100)
Free Cash Flow	-212	-498	-379	-300	-169
% Change	-66.5%	-135.1%	23.9%	20.9%	43.4%

Balance Sheet Data (Dec)

(US\$ Millions)	2019A	2020A	2021E	2022E	2023E
Cash & Equivalents	1,869	6	6	7	7
Trade Receivables	108	177	201	216	226
Other Current Assets	36	48	52	55	56
Property, Plant & Equipment	6,346	10,739	11,462	12,150	12,805
Other Non-Current Assets	1,003	1,003	1,003	1,003	1,003
Total Assets	9,362	11,973	12,725	13,431	14,097
Short-Term Debt	131	129	138	154	167
Other Current Liabilities	188	236	253	263	270
Long-Term Debt	2,943	4,681	5,013	5,592	6,064
Other Non-Current Liabilities	2,219	2,144	2,069	1,994	1,994
Total Liabilities	5,481	7,190	7,472	8,003	8,494
Total Equity	3,881	4,783	5,253	5,429	5,603
Total Equity & Liabilities	9,362	11,973	12,725	13,431	14,097

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

Water Utilities

Company Description

Essential Utilities is a regulated water/gas providing water or wastewater services to 3M customers in the states of PA, OH, TX, IL, NC, NJ, IN, and WV, with PA segment being the largest contributor to the NI - along with a natural gas presence through the recently acquired Peoples Gas providing distribution services to 740,000 customers in PA, WV, and KY.

Investment Rationale

We are Buy rated on shares of WTRG, seeing shares as poised to re-rate higher given consistent execution, acquisition upside, and increasing conviction around the premium story.

Stock Data

Average Daily Volume

1,108,464

Quarterly Earnings Estimates

	2020	2021
Q1	NA	NA
Q2	NA	NA
Q3	NA	NA
Q4	NA	NA



LT Story Intact with Muni Acquisitions Abound

After rolling forward the outlook earlier this year, formal financial updates were relatively quiet for WTRG this quarter. Full year adjusted EPS of \$1.58 was a penny above our estimate and at the top end of management's guidance, while the company reaffirmed 2021 EPS guidance of \$1.64-\$1.69 and their LT 5-7% EPS CAGR through 2023. While their water biz has a footprint in TX, they noted no material financial impact to the water biz and no financial impact to the recent cold weather events for the gas biz given the location of their operations.

After previously announcing plans to file a rate case at Aqua PA this year keeping with their three year rate case cadence for their water sub, management noted on the call that a verbal settlement has been reached around the catch up component of Repairs tax accounting for the gas biz – with plans to file the written agreement on March 11th that would give all of the tax benefits back to customers over a five year period. While we view the decision to settle the catch up with the full benefit to the rate payers as an incremental drag on our estimates in '23, we stress the \$420Mn in rate base opportunities from signed APAs should generate ~\$21Mn in earnings with further muni opportunities still to materialize – and we see opportunities abound to further accelerate water tucks ins. Following the adoption of Fair Market Value legislation in TX and VA, the company now has the constructive legislation in all eight states of their water footprint. We expect this to help further accelerate consolidation in the industry as muni budgets are further flex'd from the crisis.

Dissecting the DELCORA hiccups

After the Delaware County Court of Common Pleas issued an order supporting the pending acquisition of DELCORA by rejecting the county's attempt to block the sale, the county appealed the decision and the ALJ recommended the PUC deny the transaction. Given that there are only four commissioners right now in the state, we could very well see a stalemate or see the commission send it back to the ALJ to reconsider add'l evidence as the company works through their concerns. The commission is expected to issue a decision in March, and we stress the equity doesn't need to be pulled until August if there is a slight delay of the transaction.

We reiterate our Buy rating on shares, seeing value relative to AWK (B-2-7, \$145.64) and longer term re-rating potential as management continues to perform and drive incremental growth through municipal acquisitions.



EPS Estimates

The exhibit below reflects our latest EPS Estimates. Our 2023 estimates shift down slightly to reflect a reduction in earned ROEs given the latest developments around the settlement related to the Repairs Tax Deduction. That said, we continue to stress longer dated estimates intact despite just a three year view - and see a long trajectory of tailwinds from an acceleration in muni acquisition opportunities: we continue to model to their 5-7% CAGR longer term.

Considering the tax deal we perceive this as de-risking eventual '23 rate case and positioning co well on track to execution backdrop in '24+. We see latest NI de-risking of its PA rate case as clearly improving backdrop too. Decisive reiteration of our Buy.

Exhibit 1: EPS Estimates

Lowering '23 on repairs tax developments: Still see LT outlook intact with new rates in 2024

EPS Estimates	2019A	2020A	2021E	2022E	2023E	2024E	2025E
PA	\$1.05	\$0.75	\$0.76	\$0.88	\$0.94	\$1.00	\$1.05
OH	\$0.09	\$0.07	\$0.07	\$0.07	\$0.08	\$0.08	\$0.09
IL	\$0.10	\$0.07	\$0.08	\$0.08	\$0.09	\$0.09	\$0.10
TX	\$0.09	\$0.06	\$0.07	\$0.07	\$0.07	\$0.08	\$0.08
NC	\$0.05	\$0.04	\$0.04	\$0.05	\$0.05	\$0.05	\$0.05
Other States	\$0.10	\$0.07	\$0.07	\$0.08	\$0.08	\$0.09	\$0.09
Water Utility	1.47	1.06	1.09	1.23	1.31	1.39	1.46
Peoples Gas		0.62	0.67	0.71	0.71	0.81	0.86
Parent & Other		-0.09	-0.09	-0.13	-0.15	-0.17	-0.20
EPS	1.47	1.58	1.67	1.80	1.87	2.03	2.13
YoY Growth		8%	6%	8%	4%	8%	5%
Guidance	1.45-1.50	1.53-1.58	1.64-1.69		6%		
Three Year CAGR (off \$1.56 in 2020)					5-7%		
Guidance							
Fully Diluted Shares O/S	178	254	258	261	261	261	261
<u>Previous EPS</u>		\$1.57	\$1.67	\$1.80	\$1.92		
Consensus	1.48	1.54	1.67	1.79	1.89		
DPS	0.92	0.99	1.06	1.13	1.21	1.29	1.38
Payout Ratio	63%	62%	63%	63%	64%	64%	65%
Guidance			60-65%				
Share Count	179	255	258	261	261	261	261

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH



Valuation: PO Shifts to \$49

The exhibit below reflects our latest SOTP. We update our valuation to apply the current peer multiples to our latest estimates: 25.4x for water and 14.9x for gas (vs. 27.4x and 14.2x previously). We reduce our premium for Peoples Gas from 3x to 1x given the need for a rate case in 2023 while our water premiums remain unchanged and continue to reflect confidence in ability to consistently deliver, strong muni acquisition prospects, and an underappreciated ESG angle. Our PO ultimately shifts to \$49 (from \$54 previously). Reiterate Buy given deep discount and upside catalysts.

Exhibit 2: SOTP

PO Shifts to \$49 on Lower Multiples and Gas Premium

Water Utilities	2023 EPS		P/E Multiple				Equity Value		
		Peer	Prem/Disc	Low	Base	High	Low	Base	High
Peer Water P/E		25.4x							
Group EPS '18-'22 CAGR		8.30%							
1-year forward group Water multiple		27.5x							
Water Utilities									
States	2023E EPS ROE embedded								
PA	\$0.94	10.0%	4.0x	30.5x	31.5x	32.5x	\$29	\$30	\$31
OH	\$0.08	9.2%	2.0x	28.5x	29.5x	30.5x	\$2	\$2	\$2
IL	\$0.09	9.1%	3.0x	29.5x	30.5x	31.5x	\$3	\$3	\$3
TX	\$0.07	10.0%	2.0x	28.5x	29.5x	30.5x	\$2	\$2	\$2
NC	\$0.05	9.2%	2.0x	28.5x	29.5x	30.5x	\$1	\$1	\$1
Other (including acquisitions)	\$0.08	9.2%	0.0x	26.5x	27.5x	28.5x	\$2	\$2	\$2
Water utilities total (ex-Peoples)	\$1.31			29.9x	30.9x	31.9x	\$39	\$40	\$42
Gas Utilities									
Peer Gas P/E		14.9x							
Group EPS '18-'22 CAGR		5.80%							
Peoples Gas Multiple		15.8x							
	2023E EPS ROE embedded								
Peoples Gas	\$0.71	11.9%	1.0x	15.8x	16.8x	17.8x	\$11	\$12	\$13
HoldCo Debt									
(50% Netting out Debt) @ Aqua Parent			-1099	50%			(\$550)	(\$550)	(\$550)
'(50% P/E multiple on Interest Exp)			4.3%	50%			(\$475)	(\$441)	(\$517)
50/50 Weighted Drag from HoldCo Drag							(\$1,024)	(\$990)	(\$1,067)
Fully Diluted Shares Outstanding							261	261	261
PO							\$47.00	\$49.00	\$51.00
Current Price								\$43.31	
Dividend Yield								2.4%	
Total Expected Return								15.57%	

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH



Price objective basis & risk

American Water Works (AWK)

Our PO for American Water Works is \$162. We apply the sector average 28.4x to American Water's 2023E earnings based on the water peer multiple and a 8.1% group EPS CAGR for '18-'23E. We think this multiple is justified as in our view AWK largely drives the peer multiple as the largest publicly traded water utility. We ascribe a 3x premium for NJ, PA, IL & Other given scope of acquisition opportunities. Also a -1x P/E for Cali utility.

Risks to the downside are increase in market interest rates, potential impact of tax reform on utilities, operational errors, changes in valuation levels for water utilities. Risks to the upside are accelerating muni acquisitions, multiple expansion, and constructive legislation in regulatory jurisdictions.

Essential Utilities (WTRG)

Our price objective is \$49 based on our SOTP approach, applying a peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. These peer multiples are 25.4x and 14.9x. We apply a 3.0x premium to Peoples Gas given the organic growth opportunities, while applying a variety of premiums to its water (2x previously) subsidiaries: +4x to PA, +3x to IL, +2x to OH, +2x for TX, +2x for OH, and no premium for balance of biz. We net out parent debt and parent interest expense associated with parent debt 50/50 weighed basis.

Risks to the downside are acquisition risk, deteriorating regulatory outcomes, and risks from a lower rerating following the diversification into gas.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.



North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
NEUTRAL				
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Richard Ciciarelli, CFA
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith



North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	Southwest Gas Holdings	SWX	SWX US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Numerator

NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Return On Equity

Net Income

Shareholders' Equity

Operating Margin

Operating Profit

Sales

Earnings Growth

Expected 5-Year CAGR From Latest Actual

N/A

Free Cash Flow

Cash Flow From Operations – Total Capex

N/A

Quality of Earnings

Cash Realization Ratio

Cash Flow From Operations

Net Income

Asset Replacement Ratio

Capex

Depreciation

Tax Rate

Tax Charge

Pre-Tax Income

Net Debt-To-Equity Ratio

Net Debt = Total Debt, Less Cash & Equivalents

Total Equity

Interest Cover

EBIT

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Current Share Price

Diluted Earnings Per Share (Basis As Specified)

Price / Book Value

Current Share Price

Shareholders' Equity / Current Basic Shares

Dividend Yield

Annualised Declared Cash Dividend

Current Share Price

Free Cash Flow Yield

Cash Flow From Operations – Total Capex

Market Cap. = Current Share Price * Current Basic Shares

Enterprise Value / Sales

EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities

Sales

EV / EBITDA

Enterprise Value

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabaseSM is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

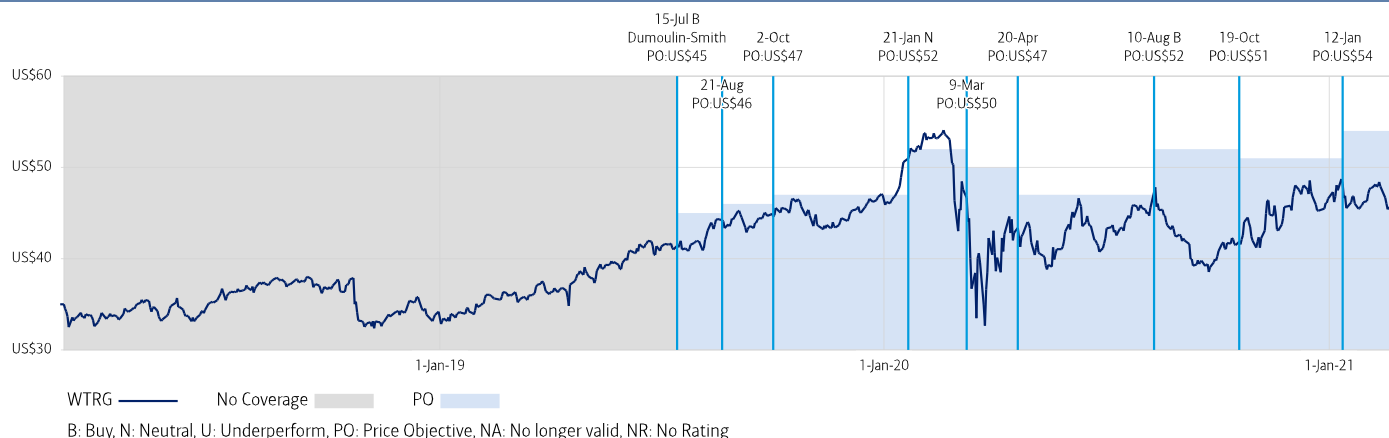
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Disclosures

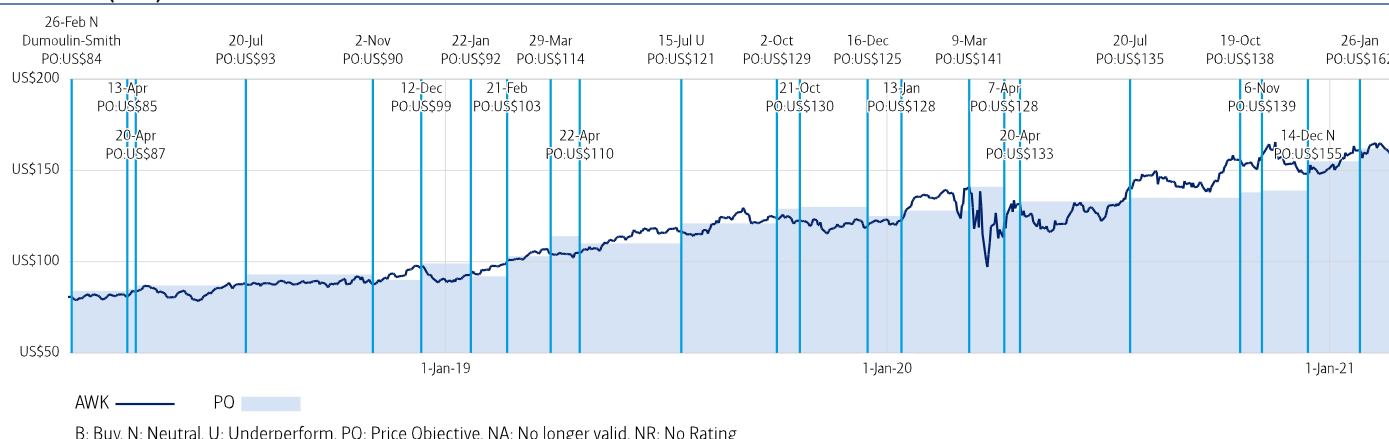
Important Disclosures

Essential Utilities (WTRG) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

American Water (AWK) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	80	51.61%	Buy	58	72.50%
Hold	37	23.87%	Hold	28	75.68%
Sell	38	24.52%	Sell	22	57.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1863	56.90%	Buy	1185	63.61%
Hold	686	20.95%	Hold	426	62.10%
Sell	725	22.14%	Sell	358	49.38%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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